

SUBCOMMITTEE NO. 5

Agenda

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Upon Adjournment of Session
Room 112

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5240 Department of Corrections

Budget Proposal. The budget proposes \$6.5 billion for the Department of Corrections (CDC), which is an increase of \$247.5 million, or 4 percent, from the revised current-year budget. General Fund expenditures are proposed to increase by \$250 million, or 4.1 percent above current-year expenditures.

CDC – Source of Funding							
Fund	<i>Expenditures (dollars in thousands)</i>					Change	Percent Change
	2001-02	2002-03	2003-04	2004-05	2005-06		
General Fund	\$4,934,700	\$5,183,248	\$4,829,486	\$6,119,792	\$6,369,768	\$249,976	4.1%
Federal Trust Fund	1,652	2,057	854,482	2,619	2,658	39	1.5%
Inmate Welfare Fund	45,645	46,816	49,639	57,006	55,863	-1,143	-2.0%
Special Deposit Fund	1,516	1,163	1,058	1,010	1,102	92	9.1%
Reimbursements	103,122	101,723	82,404	80,126	78,633	-1,493	-1.9%
Totals, Programs	\$5,086,635	\$5,335,007	\$5,817,069	\$6,260,553	\$6,508,024	\$247,471	4.0%

Authorized Positions. As shown at the bottom of the next table, authorized positions for the department are proposed to increase by 1,575, or 3.1 percent, above the current-year figures to a total of 51,848.2 positions.

CDC – Summary of Program Expenditures					
Program	<i>Expenditures (dollars in thousands)</i>				Percent Change
	2003-04	2004-05	2005-06	Change	
Institution Program	\$4,274,143	\$4,509,057	\$4,670,003	\$160,946	3.6%
Health Care Services Program	967,832	1,004,378	1,095,668	91,290	9.1%
Inmate Education Program	-	175,372	181,018	5,646	3.2%
Community Correctional Program	575,093	600,691	656,629	55,938	9.3%
Administration	130,676	147,276	162,657	15,381	10.4%
Distributed Administration	-130,676	-147,276	-162,657	-15,381	-10.4%
State Mandated Local Program	1	1	0	0	0.0%
Unallocated Reduction		-28,946	-95,294	66,348	n/a
Total	\$5,817,069	\$6,260,553	\$6,508,024	\$247,471	4.0%
Total Authorized Positions	44,033.6	50,273.1	51,848.2	1,575.1	3.1%

The average cost per inmate has been steadily increasing for the last several years.

Average Cost per Inmate at CDC						
1999-00	2000-01	2001-02	2002-03	2003-04	2004-05*	2005-06
\$22,737	\$25,307	\$27,705	\$28,654	\$31,288	\$33,470	\$35,212

* Projected

Population

Historical Population Trends. Over the last 15 years, the CDC population has nearly doubled from 82,872 on June 30 1989 to 163,500 on June 30, 2004. Between 1999 and 2002, the inmate population slowly declined. Since 2002, the institution population has been steadily increasing. It is important to note that the Fall 2004 projections do not include reductions to the estimates included in the budget proposal.

Historical Institution and Parole Populations (as of June 30 th of each year)		
Year	Institution Population	Parole Population
1989	82,872	53,779
1990	93,810	63,697
1991	101,995	74,997
1992	104,352	85,835
1993	115,534	83,887
1994	124,813	85,197
1995	131,342	91,456
1996	141,017	98,013
1997	152,506	100,828
1998	158,207	108,750
1999	162,064	112,494
2000	162,000	119,298
2001	161,497	119,636
2002	157,979	120,336
2003	160,931	116,173
2004	163,500	112,685

Fall 2004 Institution and Parole Population Estimates (as of June 30 th of each year)		
Year	Institution Population	Parole Population
2005	164,048	113,875
2006	165,832	110,004
2007	167,865	107,796
2008	169,331	107,863
2009	170,156	109,117
2010	171,137	109,180

Inmate Population Is Significantly Higher Than Amount Funded in the Current Year. The current inmate population is significantly higher than was previously funded in the 2004 Budget Act. The current inmate population is approximately 163,000, while the 2004 Budget Act provided funding for an assumed average daily population of only 157,259. The revised proposal for the current year (2004-05) now assumes that the average daily population (ADP) will be 163,019 – an increase of 5,760 ADP over the previously funded amount. In January, the CDC estimated that for the current year, it would require an additional \$207.5 million General Fund to support this increase.

Parole Population is Significantly Higher Than the Budget Projections. As of June 30, 2004, the CDC supervised 112,685 persons on parole. The January budget proposal projects the parolee population to decrease to 94,897 by the end of the budget year, a decrease of 17,788. As of April 13, 2005, the parole population was 116,386 and has been increasing by over 700 parolees a month in 2005.

The department indicates that the population projections that will be released at the May Revise will likely be significantly higher, even before the April 11 memo terminating intermediate sanctions in lieu of parole revocation.

ISSUES PROPOSED FOR CONSENT / VOTE-ONLY

1. Local Assistance Increase. The budget proposes an increase of \$7.5 million to reimburse local entities for the prosecution of crimes committed by inmates while incarcerated in the correctional system. The base amount in the budget for this function is \$12.6 million.

2. Realignment of the Benefit Trust Fund from DPA to CDC. The budget proposes to transfer \$5.5 million from the Department of Personnel Administration's (DPA's) budget to the budget for the CDC for the bargaining Unit 6 Benefits Trust Fund. In 2001, the funding was provided in the DPA budget for this activity. This proposal realigns the funding to within the CDC budget.

3. Kosher Diet Food Program. The budget proposes \$956,000 for 8 half-time Jewish chaplain positions and equipment, food, and feeding materials to implement and maintain a statewide Jewish Kosher Meal Program. Total on-going costs for the program will be approximately \$2 million. The program is being implemented as a result of a federal court order.

4. Office Assistant to Program Technician Conversion. The budget requests \$457,000 to reclassify 416 field support office assistant positions to program technician positions in response to several out-of-class settlements.

5. Limited-Term Pharmacy Technician Positions. The budget requests authority to establish 53.5 two-year limited-term pharmacy technician positions. These positions would be used in place of contract registry positions. These positions would be funded through redirection of existing funds.

6. Workers' Compensation Staffing. The budget proposes authority to establish 29 two-year limited-term positions to add return-to-work coordinators to better distribute caseloads and to provide more effective case management by limiting caseloads to 200. The funding for these positions would be provided through anticipated savings generated by the additional staff.

7. Finance Letter -- Post Relief Supervising Cooks. The January budget proposal requested \$9.8 million and 145.7 new positions to fund post relief for increased sick leave use and training requirements for registered nurses, supervising cooks, and Medical Technical Assistants (MTAs). The LAO reported some technical errors in the original proposal. This Finance Letter proposes a decrease of \$2,859,000 General Fund to reflect a correction in the number of supervisory cooks.

8. Finance Letter -- Inmate Restitution, Banking, and Canteen System Reappropriation.

This Finance Letter requests reappropriation of \$1.5 million from the Inmate Welfare Fund for a commercial off-the-shelf system to replace the obsolete 15-year old inmate restitution, banking, and canteen system. CDC indicates that project delays due primarily to procurement issues, only \$765,000 of the \$2.3 million appropriated in 2004-05 will be spent.

9. Finance Letter -- Protecting Inmates and Safeguarding Communities. This Finance Letter proposes an increase of \$209,000 federal funds to create a program designed to eliminate sexual assault in correctional facilities. The California Department of Corrections intends to use the funds to develop and implement standards for the detection, prevention, reduction, and punishment of prison rape. The funds are part of a \$500,000 federal grant that will expire on June 30, 2007.

10. Finance Letter -- Transfer of General Fund Resources to the Department of Mental Health. This Finance Letter proposes a decrease of \$61,034,000 General Fund to reflect a permanent funding transfer to the state hospital appropriation for the Department of Mental Health (Item 4440-001-0001). This technical adjustment reflects the departments' mutual effort to streamline administrative and reimbursement processes. A request for an increase of the same amount is included in a Finance Letter for the Department of Mental Health. This transfer will result in no net change to the General Fund.

Staff Comments. No issues have been raised for these consent / vote-only issues.

Action

CDC DISCUSSION ISSUES**1. Update on CDC Parole Reforms**

The Table below highlights the savings estimates for some of the parole reform proposals from the last two years.

Savings Estimates for CDC Reforms			
Program	Originally Estimated Savings for 2004-05	Estimate For Savings in 2004-05 Included in the January Budget Proposal	Estimate For Savings in 2005-06 Included in the January Budget Proposal
Expansion of the Mentally Ill Transition Program	-\$20,600,000	-\$5,909,043	-\$7,571,868
Pre-Release Planning and Re-Entry Programs	-\$30,200,000	-\$5,071,393	-\$15,900,656
STAR Program	-\$6,100,000	-\$541,377	-\$1,109,234
Modify Discharge Practices	-\$59,500,000	-\$25,778,685	-\$46,815,494
Substance Abuse Treatment and Control Units (SATCUs), Halfway Back Programs, Electronic Monitoring	-\$218,941,408	-\$21,822,316	-\$60,754,890
Totals	-\$335,341,408	-\$59,122,814	-\$132,152,142

In hearings from February and April, the Subcommittee heard testimony on the budget impact of delays in implementing the new parole model and the parole accountability reforms from the last two years. As part of the January budget, the CDC requested a current-year population deficiency of \$207.5 million. The majority of the deficiency is attributable to implementation delays for reforms from the last two years. The January proposal still assumes \$59.1 million in savings in the current year from various reforms. To the extent that these savings are not achieved, the current year deficiency will increase.

Parole Discharge Practices. At the hearing on parole issues in February, CDC indicated that it would be implementing its proposal to modify parole discharge practices in the current year. In January, the CDC estimated savings of \$25.8 million in the current-year and \$46.8 million in the budget year from this proposal.

Use of Intermediate Sanctions. In an April 11 memo, the Secretary of the YACA Agency indicated that intermediate sanctions, such as Substance Abuse Treatment and Control Units (SACTUs), halfwayback houses, and electronic monitoring will not be used in lieu of parole revocation. At the time this analysis was written, CDC could not provide any details as to how the policy in the memo would be implemented.

Action.

2. Allocation of the \$95 Million Reduction to Inmate and Parole Programs

The budget for CDC proposes a reduction of \$95 million to inmate and parole programs. This amount represents a reduction of 28 percent from inmate and parole programs. The reductions to inmate and parole programs could include cuts to substance abuse programs, inmate or parolee employment programs, academic education programs, and vocational education programs.

Staff Comments. No Finance Letter regarding the allocation of this reduction has been received by the Legislature. To the extent that the reduction in inmate and parolee programs has an impact on the ability to place inmates in work or education programs, or to reduce recidivism, there will be increased costs to CDC as a result of the reduction.

Action.

3. Valdivia v. Schwarzenegger

Last year, the Legislature approved funding requests for CDC and BPT for the Valdivia Remedial Plan. For CDC, the Legislature approved an increase of 240 positions and \$22.2 million, and for BPT, the Legislature approved 128 positions and \$35.4 million.

Remedial Plan. In December 2003, the parties in the case jointly submitted to the court their plan which includes several significant reforms to the revocation system. These reforms are designed to ensure a timely and fair revocation process for parolees. The most significant of the reforms are as follows.

- *Establishes Probable Cause Hearing as of July 2005.*
- *Requires Revocation Hearing Within 35 Calendar Days as of January 2005.*
- *Requires Attorneys for All Parole Violators.*

Workload Projections in the Budget Are Based on Use of Intermediate Sanctions. The Remedial Plan assumed that the use of intermediate sanctions by parole agents and BPT would reduce the total caseload of parolees in the revocation process, thereby allowing BPT to conduct the remaining hearings within the shortened time limits established in the agreement. The current workload funding assumes that some parole violators are sent to intermediate sanctions.

Staff Comments. In an April 11 memo, the Secretary of the YACA Agency indicated that intermediate sanctions will not be used in lieu of parole revocation. To the extent that the workload estimates assume the use of intermediate sanctions for some violators, the budget request for Valdivia workload may not be sufficient to remain within the mandated timeframes. The Subcommittee may wish to ask CDC how the changes resulting from the April 11 memo will impact Valdivia workload and when the workload projections for Valdivia will be updated.

Action

4. Salary Savings Adjustments

Budget Request. The budget proposes \$35 million in ongoing funding to reduce its salary savings for certain positions. The proposal would reduce the salary savings rate for correctional sergeant, correctional lieutenant, and supervising correctional cook from 8 percent to 0 percent; reduce the salary savings rate for MTA, Psych tech, and Registered Nurse positions from 7 percent to 0 percent; reduce certain facility operations, case records , and education positions from various levels to 4.9 percent.

At the time of its *Analysis*, the Legislative Analyst's Office (LAO) recommends deletion of the department's \$35 million request. The LAO noted that similar to other state departments, CDC's budget assumes that the department will achieve salary savings when position vacancies occur. According to the department, the salary savings adjustments have resulted in underfunding of posted positions which it proposes to address through the proposed augmentation. The department asserts that its budget assumes salary savings for some posted positions—such as correctional sergeants and registered nurses—even though these positions must be filled at all times. According to the department, this requirement to build in salary savings for posted positions even though they are continuously filled has resulted in unfunded costs which historically have been addressed through a deficiency appropriation or the redirection of funding from other parts of its budget. However, the LAO notes that the department's budget historically has not assumed salary savings for posted positions. While the department may have some unfunded operational costs, the LAO asserts that the proposal does not identify these issues, nor does it estimate their impact on the department's budget.

Analyst's Recommendation. The LAO indicates that the department has provided revised back-up information in response to concerns we raised in the *Analysis* about the department's initial proposal. According to the LAO, the department states that it spends more on personal services than is allocated to its budget, largely because the state does not fund merit salary adjustments (MSAs). As a result, the department takes steps to achieve savings in order to balance its budget, including holding positions vacant and deferring maintenance. While such steps probably do occur, the LAO notes that the department has not provided sufficient information to justify its funding request. Specifically, the department has not provided an estimate of how much more it pays in personal service costs than is budgeted for those positions. In addition, the LAO has raised concerns regarding how the department will use the funding requested. In particular, the LAO has doubts that CDC will be able to fill the positions it has identified as being held vacant to achieve salary savings, particularly in the health care program. For these reasons, the LAO withholds recommendation pending the provision of more information from CDC.

Action.

5. Supervision of Inmate Labor

The budget proposes \$2.6 million and 32 stationary engineer positions to provide supervision of inmate grounds-keeping crews.

Action

6. Third Party Discovery

The budget proposes three positions and \$480,000 in the Legal Affairs Division to assist CDC with responding to third-party discovery subpoenas. The positions would support the additional workload resulting from the DOJ discontinuing this function for the CDC.

Action

7. Employee Discipline

Budget Request. The budget proposes 20 positions and \$2.1 million positions to staff Employee Relations Offices (EROs) uniformly across prisons. These EROs do work related to employee discipline and labor relations. In part, the proposal would provide the EROs of each state prison with one employee dedicated to employee discipline issues. This would be achieved through the creation of new positions and reclassification of some existing positions.

Analyst's Recommendation. The LAO recommends a reduction of \$100,000 and the reclassification of six correctional lieutenant and three correctional counselor II (specialist) positions to correctional sergeant positions. The department states that this proposal is designed to achieve uniformity across institutions. However, while most of the proposed employee discipline positions are classified as correctional sergeants, nine positions are either correctional lieutenants or correctional counselor II (specialist) positions. The LAO indicates that the department has provided no justification for using classifications other than correctional sergeants. Therefore, the LAO believes that these nine positions should be reclassified to the correctional sergeant classification. Doing so would provide for consistency across institutions, make it easier for institutions to fill these positions, and be less expensive than the current classifications.

Action.

8. Custody Employees in Headquarters

Background. In its *Analysis*, the LAO noted that CDC may overutilize custody employees in headquarters. The LAO reported that of the 3,241 position in headquarters, 880 (27 percent) held peace officer status.

Analyst's Recommendation. The department has provided the LAO with revised data indicating that there are fewer custody employees staffed in its headquarters and regional offices than it previously indicated. Based on this information, the LAO recommends that the Legislature reduce CDC's funding by \$300,000 in the budget year, consistent with the reclassification of 25 headquarters positions by January 1. The LAO believes that this level of reduction is achievable given the department's revised position estimates, as well as steps it has already taken to identify headquarters positions to be reclassified to improve its operations. In addition, the LAO recommends Supplemental Report Language requiring CDC to update the Legislature by January 1, 2006 as to progress made related to this issue.

Item 5240-001-0001—California Department of Corrections. The California Department of Corrections shall submit a report to the Legislature on or before January 1, 2006 on the conversion of peace officer positions in headquarters and regional offices to non-peace officer positions, consistent with the recommendations of the Legislative Analyst's Office and the *Analysis of the 2005-06 Budget Bill*. The report shall include the following: (1) a list of the positions in headquarters and regional offices that were reclassified or eliminated; (2) an estimate of the budget impact of these reclassifications and eliminations; and (3) the department's plan for ensuring that future position vacancies are filled with non-peace officer classifications whenever possible.

Action.

9. Foreign Prisoner Transfer Program

The LAO reports that the BPT estimates that about 6,500 foreign inmates are eligible for transfer and that the BPT has successfully transferred 15 foreign inmates in the last three years. By comparison, the LAO notes that the federal system has transferred about 857 in that same period.

Analyst's Recommendation. The LAO recommends that the Legislature adopt supplemental report language requiring CDC to update their policies and procedures to maximize the effectiveness of this program.

Item 5240-001-0001. No later than October 1, 2005, the California Department of Corrections shall update its Operations Manual to include current state policies and procedures regarding the Foreign Prisoner Transfer Treaty Program.

Staff Comments. At the hearing on April 21, the Subcommittee approved an augmentation in the BPT to provide additional staff for this program to investigate and process the increase in applications, as well as do more field training of CDC staff. Consistent with that action, the LAO also recommends that the Legislature reduce the CDC budget by \$127,000 in the budget year, which represents a reduction of about 7 inmates for the full year. The LAO notes that while the exact amount of long-run savings will depend on several factors, an increase of 25 inmate transfers each year, for example, would result in offsetting savings of about \$1 million annually.

Action.

10. Implementation of Proposition 69, DNA Testing Finance Letter.

Budget Request. The budget proposes \$3.6 million for the CDC in 2005-06 for the costs associated with the implementation of Proposition 69. The Proposition mandates CDC to collect DNA samples from all CDC felon and parolees. The LAO raised several concerns related to estimated costs for obtaining the samples, estimates for the number of samples to be taken, and the estimated postage costs.

Finance Letter Request. This Finance Letter proposes a decrease of \$467,000 General Fund to revise the amount proposed in the 2005-06 Governor's Budget for the implementation of Proposition 69—the DNA Fingerprint, Unsolved Crimes, and Innocence Protection Act. This adjustment revises the total request to reflect a need for \$3,129,000 General Fund for the collection of DNA samples during 2005-06.

LAO Recommendation. The LAO recommends approval of CDC's revised budget request for funding to implement Proposition 69, with the following adjustments:

- Reduce \$762,000 in the budget year to reflect a reduction in parole agent overtime from 45 minutes to 30 minutes per parolee DNA sample, and
- Reduce \$186,000 in the budget year to reflect a reduction in the number of new admissions that will arrive at CDC requiring DNA samples from 20,454 (50%) to 10,227 (25%).

The LAO indicates that these recommendations are meant to more accurately reflect the amount of funding they believe CDC will require based on their viewing of the DNA sampling process, as well as our discussions with state and local correctional officials.

In addition, the LAO recommends budget language which would require that any unspent funds designated for sampling new admissions in the budget year would revert to the General Fund.

Of the amount appropriated in this item, \$185,000 is for the collection of DNA samples from inmates who arrive in state prison without providing a DNA sample in county jail as required by law. If the number of incoming inmates who provide DNA samples in prison is lower than projected, unspent funds appropriated for this purpose shall revert to the General Fund.

Action

11. Institutional Operating Budgets

Last year, the budget bill included language requiring the CDC to report to the Legislature with information on the operating budget for each CDC facility, including information regarding the number of authorized and vacant positions, estimated personal services costs, the estimated overtime budget, and the estimated operating expenditures and equipment budget.

The LAO believes that in future years the department should provide additional detail in its report which would allow the Legislature to make more meaningful analyses of allocation and spending patterns within and across institutions.

Specifically, the LAO recommends that the Legislature amend the budget bill language for 2005-06 to require the department to provide the following in addition to what is already required: (1) year-end expenditures by program for each institution in 2004-05, and (2) allotments and projected expenditures by program in 2005-06.

No later than February 17, 2006, the Secretary of the Department of Corrections and Rehabilitation shall submit to the chairpersons and vice chairpersons of the Committee on Budget in both the Assembly and Senate and to the Legislative Analyst's Office an operating budget for each of the correctional facilities under the control of the department. Specifically, the report shall include: (1) year-end expenditures by program for each institution in 2004-05, (2) allotments and projected expenditures by program for each institution in 2005-06, (3) the number of authorized and vacant positions, estimated overtime budget, estimated benefits budget, and operating expense and equipment budget for each institution, and (4) a list of all capital outlay projects occurring or projected to occur during the 2005-06 fiscal year.

Action

12. Security Housing Units There are currently two Security Housing Units (SHU) operated by the Department of Corrections. The 1,056-bed facility at Pelican Bay is one of them. The other, a 512-bed facility at Corcoran State Prison, houses both SHU and protective custody inmates.

Background. California's most secure prison facility, the high-tech SHU, is located within the maximum custody Pelican Bay State Prison. Its purpose: to protect staff and male inmates throughout the system from the few most violent, predatory offenders. The prison is geographically isolated, lying just south of the Oregon border near the coastal community of Crescent City, California. One side of the prison houses maximum custody inmates in general population--those who can hold jobs, go to school, and mingle with other inmates. Inmates assigned to Pelican Bay's SHU have none of these privileges. They have proven by their behavior in prison that they cannot be housed safely with general population inmates.

Informational Issue

13. Transitional Housing Unit (THU)

The Transitional Housing Unit (THU) is a small unit of 48 prisoners who do everything together. Of the 337 prisoners who have participated, only 17 failed to finish the program; 6 have been sent back to the SHU (none for gang-related offenses); 40% have paroled; and 21% of parolees have been returned to prison as parole violators (this is less than one-third the normal rate).

Background The THU operates at Pelican Bay. It is a transition from the Secure Housing Unit to the General Population for prisoners who are gang drop-outs. In order to get into the THU, an inmate must debrief on his former gang. According to Pelican Bay officials who run the program, it is wildly successful. The THU is integrated, so the gang members of all kinds are in the same program. The THU uses a lot of the same techniques as Missouri and Connecticut, emphasizing programming/education and guard/prisoner interaction. The goal of the THU is to allow inmates to build better relationships and understand that they can get along with other gangs/races.

Informational Issue

14. Finance Letter -- Basic Correctional Officer Academy Expansion

This Finance Letter proposed an increase of \$29,074,000 General Fund to increase the number of Basic Correctional Officer Academy cadets from 640 to 1,920 annually. The academy was deactivated in February 2004, based on projected population decreases which have yet to fully materialize.

Action

15. Finance Letter -- Price Increase Adjustment

Decrease of \$2,932,000 General Fund to revise the amount proposed in the 2005-06 Governor's Budget for this adjustment. With this revision, the Department's total price increase for 2005-06 will be \$43,109,000 (\$42,102,000 General Fund). This amount reflects a revised calculation based on the updated operating expenses and equipment budget of the Department, adjusted for significant one-time expenditures and revised staff benefits costs and totals a 2.6 percent increase for operating expenses and equipment. This is consistent with the intent of Budget Letter 04-32.

Analyst's Recommendation. LAO recommends an additional reduction of \$4.4 million from the Finance letter amount. \$1.3 million of the additional reduction is related to a technical calculation error and \$3.1 million is based on insufficient information on the calculation for a portion of the increase in the healthcare services division.

Action.

13. Training

Last year, the Legislature approved an augmentation of \$10.4 million in CDC's budget to increase the number of hours of training for correctional officers from 40 hours to 52 hours. Subsequently, CDC entered into an agreement to provide the additional 12 hours training as on-the-job training. Of the funding provided, CDC indicates that it has reverted \$4.9 million to the General Fund. CDC also indicates that it plans to redirect \$5.5 million of these funds for costs associated with implementation of *Plata* Remedial Plan. The CDC indicates that this training funding has been removed from its budget for 2005-06.

Informational Issue

14. Finance Letter -- Statewide Offender Management System

This Finance Letter proposes an increase of \$253,000 General Fund to partially fund the extension of 5.0 limited-term positions for two years, until June 30, 2007. The remainder of the necessary funds (\$376,000 General Fund) for 2005-06 is proposed to be reappropriated from a previous appropriation.

This request was originally funded in 2003-04. At that time, the proposal was intended to provide funding and support to conduct, within 12 months, the required analysis to select and validate an appropriate automated solution, and to provide the business case and cost/benefit justification for that solution. The CDC indicated that this would be accomplished through a business process analysis, definition and validation of detailed business requirements, and definition of the measurable business objectives necessary to complete the Feasibility Study Report (FSR).

Original Request		
Resource	Fiscal Year 2003-04 Cost	Fiscal Year 2004-05 Cost
5 limited term positions	\$449,356	\$449,356
Vendor Consultant Services	\$675,000	\$375,000
Equipment/Travel/Training	\$153,644	\$34,644
Total	\$1,278,000	\$859,000

The Table above highlights the amounts that were previously funded for the original request. In 2003-04, CDC did not spend all of the money so the Legislature approved their proposal to reappropriate these funds for the current year. In the current year, CDC indicates that it will not spend \$376,000 and is seeking to reappropriate these funds in the budget year. In total, the CDC will have spent \$1.8 million in 2003-04 and 2004-05 and is seeking to reappropriate \$376,000 to spend in 2005-06.

Timetable in the Original Request from 2003-04

April 2003 through July 2003	Hire new limited-term staff
April 2003 through July 2003	Identify subject matter experts and provide Business Process Analysis training
July 1, 2003	Sign consultant contract
July 10, 2003	Project Kick-off
August 2003	Complete project scheduling and visitation schedules to the institutions
August 2003 through December 2003	Complete Business Process Analysis and recommended statewide work processes
December 2003 through February 2004	Complete review of commercial off-the-shelf solutions, produce initial gap analysis and estimated schedule and budget alternatives.
March 2004 through May 2004	Complete business case and solution justification
April 2004 through May 2004	Complete procurement plan

New Request. In addition to the reappropriation of \$376,000 in the current year, the CDC is requesting that the limited-term positions be extended for 2 more years and that \$253,000 from the General Fund be provided – for a total of \$629,000 in 2005-06 and that an additional \$550,000 is provided for 2006-07.

Timetable for the Request for 2005-06

March 2005	Release the Request for Offer (RFO)
May 2005	Award RFO and sign consultant contract
May 2005	Training
November 2005	Complete Business Process Analysis
February 2006	Complete review of commercial off-the-shelf solutions, produce gap analysis
May 2006	Complete Feasibility Study Report (business case and solution justification).
May 2006	Complete Information Technology Procurement Plan

The request indicates that to-date, CDC has taken action to hire the majority of the limited-term staff, developed all the necessary project initiation strategies and schedules, and completed a Request for Offer document.

Action

HEALTHCARE SERVICES**19. Healthcare Contract**

Background During testimony at the April 14th Joint hearing of the Budget and Fiscal Review Subcommittee No. 5 and Senate Select Committee on the California Correctional System, Kevin Carruth, Undersecretary, Youth and Adult Correctional Agency, indicated that YACA was looking to contract out the management of correctional healthcare. YACA has drafted a contract in which consultants are asked to develop an RFP for contracting out. That contract, which has not been signed, will pay \$850,000 to a consulting firm to develop the RFP. This contract was given to the consultants in a non-competitive bid.

Despite the successful litigation in *Plata*, the Department of Corrections has continued to provide inadequate and, often, dangerous healthcare services, as evidenced by the recent reports issued by the experts. The most recent report, reviewing San Quentin, revealed a decrepit, unsanitary, and deadly healthcare system, in which the stipulations of *Plata*—settled over a year ago—had still not been met. Testimony from witnesses across the board indicated that the healthcare system was so broken that drastic alternatives needed serious consideration.

Action.

20. Reporting Language for *Plata* Remedial Plan

In light of the significant fiscal investment required by the *Plata* settlement agreement, the LAO believes that the Legislature should require the department to report on its progress in achieving the goals of the *Plata* settlement.

LAO Recommendation: Adopt Supplemental Report Language to this effect.

On or before December 1, the California Department of Corrections shall annually provide a report to the chairs of the fiscal committees in both houses on the status of the implementation of the *Plata* settlement agreement. The report to the Legislature shall identify specific outcomes relating to the settlement agreement and its goal of providing increased access and higher quality health care services. The report shall include information on medical related inmate appeals, medical staff vacancies, and census data (bed usage) for each prison and community hospital facility.

Action

21. UC Interagency Agreement

The budget requests \$14.7 million to fund two contracts with UC to address concerns raised by the court medical experts regarding the quality of CDC medical staff. The two interagency agreements are to evaluate and train CDC physicians. Specifically, one interagency agreement with UC San Diego (UCSD) is for physician assessment and training, and one agreement is with UC San Francisco (UCSF) for on-site physician consultations.

The LAO's review of the proposed agreements indicates that only about \$5.7 million is required in 2005-06. (That's \$1.2 million for the interagency agreement with UCSD, and approximately \$4.5 million for the interagency agreement with UCSF). The CDC agrees there is more funding here than required, but has indicated that the contract amounts may need to be adjusted in future years.

LAO Recommendation. The LAO recommends reducing this item by \$9 million for the budget year.

Action.

22. Finance Letter -- Institution Medical Contract Staffing

This Finance Letter proposes an increase of \$712,000 General Fund to address the increasing workload associated with the contract bidding processes of previously exempt medical services. The Department of General Services will be requiring CDC to bid out for medical services that were previously exempted from the formal bidding process.

Action

23. Finance Letter -- Pharmacy Health Care Management System, Phase III Implementation

This Finance Letter requests an increase of \$4,867,000 General Fund to fund the Phase III Implementation of a pharmacy automated information system project to improve delivery of health care to inmates, pharmacy operation, medication management, and to comply with legal and regulatory requirements. Budget bill language prohibiting the expenditure of these funds until the Feasibility Study Report for this project is approved by the Department of Finance is also requested. The total three-year costs for the system are \$12.3 million, of which \$8.9 million are one-time costs.

Action.

24. High Vacancies Rates

The department continues to experience high vacancies in its health care positions. The overall vacancy rate is in the range of 21 percent. The LAO notes that to-date, recruitment and retention bonuses do not appear to have made a significant difference in number of vacancies. The Table below highlights the vacancy rates for selected healthcare classifications as of November 2004.

Vacancy Rates for Selected Health Care Classifications as of November 30, 2004			
Classification	Positions	Vacancies	Vacancy Rate
Staff Psychiatrist	183.7	65	35.4%
Registered Nurse	1,070.96	300.76	28.1%
Med Tech Assistant	1,036.1	220.95	21.3%
Psy Social Worker	144.26	28.80	20.0%
Clinical Psychologist	424.4	82.9	19.5%
Pharmacist I	82.2	33.2	40.4%
Pharmacist II	32.0	13.0	40.6%

Growth in Expenditures for Medical Registry Contracts			
Year	Total Expenditures	Increase	Percent Change
1998-99	\$11,722,236	--	--
1999-00	\$14,795,111	\$3,072,875	26.2%
2000-01	\$28,869,934	\$14,074,823	95.1%
2001-02	\$46,790,565	\$17,920,631	62.1%
2002-03	\$63,821,909	\$17,031,344	36.4%
2003-04	\$74,550,196	\$10,728,287	16.8%
2004-05*	\$136,501,323	\$61,951,127	83.1%

* Estimated

As can be seen in the Table above, expenditures for Medical Registry contracts have increased significantly in recent years. Of note, expenditures in the 2003-04 were \$74.6 million, but the budget allotment for these contracts was \$26.2 million. A Bureau of State Audits report from 2003 noted that these registry contracts were being used to fill vacant positions.

In some instances, recruitment and retention bonuses have been implemented to help to try to fill the positions. A recent CDC compensation survey noted that for the Pharmacist I positions, the CDC salary lagged below the market rate for comparable positions by between 39.75 percent and 51.56 percent.

The LAO recommended that the CDC report on recent actions taken to address the problem of vacancies.

25. Various Positions: Facility Captains, Staff Counsel, and Extraordinary Travel

The budget requests 12 facility captain positions to implement the rollout of *Plata* Remedial Plan, and 4 staff counsel to oversee its implementation. The LAO originally recommended rejecting all of the captain positions and two of the staff counsel positions along with the extraordinary travel budgeted for each position.

The LAO now recommends approving six of the twelve facility captain positions. The department has indicated this would be sufficient in the budget year, but indicates that additional positions may be needed in future years.

LAO Recommendation: Reduce by \$1.6 million.

Action.

26. “Dead” or Incapacitated Inmates Earlier this year, in a letter to Senator Romero, CDC indicated that it had spent approximately \$1.27 million for the healthcare of 6 inmates who lay comatose. These inmates also cost the state approximately \$1056/per day in guarding costs. (CDC declined to estimate how much had been spent in guarding costs on these six inmates.)

CDC currently has four acute care hospitals in operation, yet with the exception of one inmate, these inmates were housed in outside community hospitals. The expert reports issued as part of the *Plata* settlement indicate that CDC’s own acute care facilities are underutilized and could result in significant cost savings if used appropriately.

Since these inmates cost so much in terms of healthcare services and guarding costs, could CDC improve its use of the acute care hospitals to serve these inmates and thereby avoid the higher costs of outside contracts and extra security measures?

Informational Issue.

27. Contract Medical and Pharmacy Expenditures

As can be seen in the Table below, the costs for pharmaceutical and medical supplies has been a growing part of CDC's healthcare budget, and expenditures are greater than budget authority. A number of reports in the last few years, including a Bureau of State Audits report 1001-012: January 2002 have highlighted shortcomings in the areas of purchasing, distribution, and the pharmacy IT system.

Medical/Pharmaceutical Supplies

Medical/Pharmaceutical Supplies Budget Authority Versus Expenditures				
Year	Budget Authority	Expenditures	Expenditure Growth	Percent Growth
1998-99	\$40,128,443	\$58,432,655		--
1999-00	\$55,112,059	\$77,641,803		32.9%
2000-01	\$97,322,500	\$99,420,032		28.0%
2001-02	\$78,760,465	\$118,353,185		19.0%
2002-03	\$121,720,979	\$134,280,552		13.5%
2003-04	\$130,112,490	\$154,225,373		14.9%

Contract Medical Budget Authority Versus Expenditures				
Year	Budget Authority	Expenditures	Expenditure Growth	Percent Change
1999-00	\$69,239,000	\$111,337,728	--	
2000-01	\$117,522,060	\$154,934,939	\$43,597,221	39.2%
2001-02	\$209,533,000	\$200,626,893	\$45,691,954	29.5%
2002-03	\$206,419,454	\$239,486,201	\$38,859,308	19.4%
2003-04	\$237,317,853	\$290,606,592	\$51,120,391	21.3%

In order to help reduce expenditures for pharmacy supplies, the LAO has recommended the following budget bill language:

It is the intent of the Legislature that the state provide parolee medications in the most cost-effective manner. In deciding how to purchase parolee medications, the Department of Corrections, in consolidation with the Department of General Services, shall consider, but not be limited to, contracting with a pharmacy benefits manager and purchasing medications under pharmacy contracts used for prison inmates. The department shall compare the cost of such options and choose the lowest cost option(s).

Action.

0550 Secretary for Youth & Adult Correctional Agency

The Youth and Adult Correctional Agency (YACA) includes the Department of Corrections, Department of the Youth Authority, the Board of Prison Terms, the Youthful Offender Parole Board, Board of Corrections, Prison Industry Authority, the Narcotic Addict Evaluation Authority, and the Commission on Correctional Peace Officers' Standards and Training. The Agency provides communication, coordination, and budget and policy direction for the departments and boards.

Budget Request. The total proposed budget for the Youth and Adult Correctional Agency is \$2.8 million, which is a decrease of \$28,000, or 1 percent, from estimated current-year expenditures. The YACA is funded entirely from the General Fund. Last year, the Legislature increased funding for YACA from \$1.2 million to \$2.8 million and added 12 positions in order to provide oversight and policy direction to the departments within the agency. The increase was funded through reductions to both CYA and CDC, and YACA had indicated that the agency had been borrowing positions from the agencies to perform necessary oversight.

YACA – Summary of Program Expenditures					
	(dollars in thousands)				
Program	2003-04	2004-05	2005-06	Change	Percent Change
Secretary for Youth and Adult Correctional Agency	\$1,220	\$2,801	\$2,816	\$15	0.5%
Unallocated Reduction	0	0	-43	-43	n/a
Total	\$1,220	\$2,801	\$2,773	-\$28	-1.0%
Authorized Positions	7.5	20.8	20.8	0	0.0%